

2004 - 2005 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2004-2005 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2004-2005 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000's)

Category	Modified Budget	Budgetary Basis Actual	Variance
Property Tax	\$ 140,715	\$ 144,048	\$ 3,333
Sales Tax	128,488	133,113	4,625
Transient Occupancy Tax	5,846	6,409	563
Franchise Fees	32,462	33,722	1,260
Utility Tax	70,004	73,081	3,077
Licenses and Permits	73,318	73,151	(167)
Fines, Forfeitures, and Penalties	12,371	13,370	999
Use of Money and Property	6,874	7,946	1,072
Revenue from Local Agencies	45,678	45,056	(622)
Revenue from the State of California	13,129	13,467	338
Revenue from Federal Government	11,390	2,593	(8,797)
Departmental Charges	28,137	28,094	(43)
Other Revenue	30,269	18,380	(11,889)
Subtotal	598,681	592,430	(6,251)
Overhead Reimbursements	28,979	29,411	432
Transfers	42,901	42,759	(142)
Reimbursements for Services	17,492	17,428	(64)
Subtotal	89,372	89,598	226
TOTALS*	\$ 688,053	\$ 682,028	\$ (6,025) **

* Excludes Beginning Fund Balance

** After adjusting for grant and reimbursement related revenue not received in 2004-2005 but carried over to 2005-2006, the revenue variance actually resulted in a surplus of \$14.8 million. Corresponding General Fund expenditure savings were also realized in 2004-2005, with a net zero impact on the General Fund Ending Fund Balance.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

The General Fund revenue performance for 2004-2005 is discussed in detail in the following section. This discussion includes a comparison of the 2004-2005 actual revenue receipts for each of the major revenue categories to the modified budget and descriptions of significant variances. In addition, comparisons with the 2003-2004 collection levels are typically included to indicate collection trends and to provide historical perspective.

As shown in Table A, total revenue received in the General Fund in 2004-2005 was \$682.0 million. This total represents a slight increase of \$33.2 million (up 5.1%) from the actual 2003-2004 collections (\$648.9 million), but was down slightly from the 2004-2005 Modified Budget level (\$6.0 million or 0.9%). The change from last year reflects timing differences in one-time transfers in the prior year combined with increases in the following revenue categories: Property Tax, Sales Tax, Transient Occupancy Tax, Franchise Fees, Utility Tax, Licenses and Permits, Revenue from Local Agencies, Departmental Charges, and Other Revenue. It should be noted that a large portion of the increase reflected the adoption of a new revenue source, implemented on January 1, 2005 – the Emergency Communications System Support Fee, which brought in new revenues in the amount of \$9.1 million for half a year. Growth in the previously listed categories was partially offset by decreases in the following revenue categories: Fines, Forfeitures, and Penalties, Use of Money and Property, Revenue from the State of California, and Revenue from the Federal Government.

The variances from the modified budget levels, as well as changes from prior year levels are better understood through a discussion of the status of the individual General Fund revenue categories, as provided in the following section.

Property Tax

Property Tax receipts for the 2004-2005 fiscal year totaled \$144.0 million. This collection level was off only slightly (2.4% above) the budgeted estimate of \$140.7 million, and represented growth of 50.6% above prior year actuals of \$95.6 million. While partially driven by increases in Secured Property Tax receipts, the seemingly huge level of growth over the prior year primarily reflected the impact of the re-categorization of Property Tax receipts which resulted from State budget balancing actions as described below.

Secured Property Tax receipts of \$125.3 million were 59.7% (\$46.8 million) above the 2003-2004 level and 1% (\$1.2 million) above the 2004-2005 Modified Budget estimate. Although Secured Property Tax receipts experienced some growth in 2004-2005, the main reason for the large percentage change in this category, as reported in the Monthly Financial Reports during 2004-2005, was due to the inclusion of the impact of the State Motor Vehicle In-Lieu (VLF) Swap included as part of the State budget balancing package. The Swap involved the permanent

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Property Tax (Cont'd.)

conversion of \$49.4 million in VLF backfill funds to Property Tax that was part of the approved State budget. Because of the ongoing nature of this change, the compensating State revenue will be treated as Property Tax in future budgets. Although the overall impact of these changes was supposedly intended to be net-zero, the affect will be an ongoing increase in Property Tax collections and a corresponding decrease in VLF collections.

In addition to this \$49.4 million increase, the City Council, through the September 2004 rebalancing actions, revised the budget estimate for this category downward by \$11.1 million to reflect the approved State budget. As discussed further under "Revenue from the State of California" below, the passage of Proposition 1A will also result in an additional \$11.1 million contribution to the State for 2005-2006. That impact was built into the 2005-2006 Adopted Budget.

Actual Secured Property Tax receipts also experienced growth in 2004-2005 as a result of continued high valuations due to property turnovers and the addition of new properties. It should be noted that the property tax levy as of December 31, 2003 was the basis for the Secured Property Tax collections in 2004-2005.

SB 813 Property Tax receipts of \$6.8 million were 71.5% above (up \$2.8 million) the actual 2003-2004 level, and above (\$2.2 million) the 2004-2005 modified budget estimate of \$4.6 million. The SB 813 Property Tax component represents the retroactive collection of taxation on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. The lag time for recording SB 813 transactions is typically several months.

According to the County Assessor's Office, the large increase is related to the VLF Swap mentioned above. SB813 Property Tax receipts are pooled receipts that are allocated to each jurisdiction based on their share of secured property taxes. The increase in the City's Secured Property Taxes as a result of the VLF Swap apparently increased the City's share of SB813 receipts. The increase received in 2004-2005 reverses a trend of decreasing receipts experienced since 2000-2001. We continue to have some concern, however, that collections in this revenue category, and potentially in the Secured Property Tax category as well, are higher than the prior year, at least in part, due to the peculiarities in the VLF Swap discussed above. The VLF Swap was designed to be a neutral swap of VLF for Property Tax. If the additional property tax revenue, which we appear to be experiencing, is later determined to result to any significant extent from missed projections at the State level regarding the impact of the VLF swap, there may be some risk that the State would attempt to recover revenue collections deemed to be above and beyond the intended revenue neutral design.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Property Tax (Cont'd.)

The Unsecured Property Tax is assessed on major business equipment items and is subject to annual depreciation adjustments. Current and Prior Unsecured Property Tax receipts of \$10.8 million decreased by 10.5% (\$1.3 million) compared to the 2003-2004 actual level. This performance was only slightly lower (\$39,000) than the budgeted estimate. The drop in 2004-2005 followed a 13.9% decline experienced in 2003-2004, reflecting the current economic conditions. The drop-off experienced in the last two years is significantly different than the growth experienced in prior years: 2002-2003 (2.2%), 2001-2002 (26.6%), 2000-2001 (13.0%), 1998-1999 (8.3%), 1997-1998 (15.0%), and 1996-1997 (12.0%). For comparison purposes, however, these high growth rates are still higher than those experienced in 1995-1996 (1.7%) and the large drops experienced in both 1994-1995 and 1993-1994, the last comparable period of economic decline. The declines in those years resulted from the County Assessor actions accelerating the depreciation schedules used to value major business equipment items and economic conditions during that time period. Given current economic conditions, the 2005-2006 budgeted estimate allows for a drop of 5.0% from the 2004-2005 estimated collection level.

The Homeowner's Exemption Subvention represents the recovery of tax loss resulting from the per-household exemption granted by current State law. Receipts in this tax category of \$1.1 million were consistent with the budgeted estimate and reflect a slight 1.2% decrease from the 2003-2004 actual collection level.

After adjusting for the impact of the VLF swap, the 2005-2006 Adopted Budget revenue estimates for Property Tax predicted an approximately 4.7% overall increase in the growth levels over the 2004-2005 year-end estimate. This estimated growth rate was primarily driven by expected growth in Secured Property Tax, offset by declines in Unsecured Property Tax receipts. As actual 2004-2005 Secured and SB813 receipts were higher than anticipated when the 2005-2006 Adopted Budget was formulated, the 2005-2006 Adopted Budget now reflects essentially flat overall growth over actual 2004-2005 receipts. Although it is still too early in the year to warrant an adjustment to the current 2005-2006 estimate, the Budget Office will monitor this area closely and report on its status through the Monthly Financial Report.

Sales Tax

Sales Tax collections for 2004-2005 of \$133.1 million were 1.8% above (up \$2.4 million) the 2003-2004 year-end level of \$130.7 million and 3.6% above the 2004-2005 budget estimate of \$128.5 million. The General Sales Tax collections, the largest component of this category, totaled \$128.8 million, up \$2.4 million from 2003-2004. This performance continues to reflect an apparent bottoming out of the downward spiral that the local economy has experienced in the recent past and reflects 6 straight quarters of increases after ten straight quarters of decreases.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Sales Tax (Cont'd.)

Most of the increase in 2004-2005 came in the second quarter, which included the December holiday spending period and resulted in a 9.1% increase in that quarter. The third quarter, however, came in essentially flat, posting only a 0.04% increase. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) was accrued based on projections. A 2.5% drop was built into this year-end, fourth quarter accrual based on the performance of the prior quarter and economic reports indicating no significant improvement for that period. With rising gas prices and increasing interest rates, consumer confidence has started to fall. As mentioned in the Monthly Financial Reports, retail sales have now overtaken business-to-business sales as the number one sales tax category. A slowdown in consumer spending would have a significant impact on the City's Sales Tax receipts.

Total 2004-2005 results continue to indicate that the downward momentum experienced through the middle of 2003-2004 has slowed and we now may be at the bottom of the economic downswing. How long we remain at the bottom before we see an upturn, however, still remains to be seen.

In addition to economic factors that drive Sales Tax receipts, this category has also been impacted by a State budget balancing action known as the Triple-Flip. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), 25% of the City's one percent Bradley-Burns sales tax has been temporarily suspended and replaced dollar-for-dollar with property tax revenue (primarily ERAF). This action is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts are tied to sales tax and because, unlike the permanent VLF Swap described earlier in this document, this action is considered to be temporary. The Triple-Flip payments in 2004-2005 were based on estimates and any difference was to reconciled or "true-up" in the following year. The State recently released the amount of the true-ups, and based on calculations more favorable to the State than previously assumed, the City has been informed that the in-lieu payments to be received in January 2006 and May 2006 will be reduced by a total of \$4.2 million from what had been anticipated based on previous statements from the State concerning the methodology they would use to calculate this "true-up". This impact on the overall Sales Tax category will be carefully monitored in 2005-2006 to determine if an adjustment to the revenue estimate is necessary, and we will continue to press with the State our belief that the recently announced methodology is not consistent with previous representations made by the State.

Proposition 172 Half-Cent Sales Tax receipts of \$4.3 million were essentially flat (up 0.5% or \$20,000) when compared to the 2003-2004 collection level. After three straight years of decreases, this category continues to indicate that we may have leveled out at the bottom of the economic downswing.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transient Occupancy Tax

Collections for the General Fund's portion (4.0%) of the City's Transient Occupancy Tax (TOT) were encouraging, totaling \$6.4 million and representing a 12.2% increase (up \$697,000) over the prior year level of \$5.7 million and a 9.6% increase (up \$563,000) from the budget estimate of \$5.8 million.

There are signs that TOT collections should be expected to continue to improve, or at least remain in positive territory, in the near future. The average room rate increased during last year from \$110 to \$114, although the occupancy rate remains the same as the prior year at 48.9%.

Franchise Fees

Franchise fee collections of \$33.7 million were above (3.9% or \$1.3 million) the 2004-2005 modified budget level of \$32.5 million. The variance between the actual receipts and budget was primarily due to higher than estimated collections in Gas, Cable Television, and Commercial Solid Waste Franchise Fees, offset by lower than estimated collections in Electric Franchise Fees.

Electric and Gas Franchise Fees for 2004-2005 were based on activity that occurred during calendar year 2004. Electric Franchise Fees of \$13.5 million were 2.8% below (\$387,000) the 2004-2005 modified budget level of \$13.8 million, but flat (up \$13,000) when compared to the 2003-2004 level of \$13.4 million. Gas Franchise Fees of \$3.4 million were 15.6% above (\$460,000) the 2004-2005 modified budget level of \$3.0 million and 14.4% above (\$430,000) the 2003-2004 collection level of \$3.0 million. The higher Gas Franchise Fees reflect continued increases in natural gas prices through 2004-2005 with relatively flat consumption.

Cable Television Franchise Fee collections of \$4.6 million were 8.9% above (up \$381,000) the 2004-2005 modified budget level of \$4.3 million and 2.5% above (\$115,000) the 2003-2004 collection level of \$4.5 million. This performance reflects slightly higher than anticipated growth in the number of cable television subscribers. City-Generated Tow Franchise Fee receipts of \$1.2 million ended the year slightly below (\$37,000) the 2003-2004 level of \$1.3 million but slightly above (\$27,000) the 2004-2005 modified budget. Water Franchise Fee collections of \$211,000 were 9.0% above (\$17,000) the 2003-2004 level as well as 31.9% above the 2004-2005 modified budget level primarily due to increases in water rates during the year. Nitrogen Gas Pipeline Franchise Fee receipts of \$58,000 were 2.7% above budgeted expectations.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Franchise Fees (Cont'd.)

Commercial Solid Waste Franchise Fee (CSW) collections of \$10.7 million were 8.4% above (\$831,000) the 2004-2005 modified budget level of \$9.9 million and 16.3% above (\$1.5 million) 2003-2004 actual collections of \$9.2 million. The increase in collections from the prior year was primarily driven by the combination of the removal of an annual exemption (first 21,600 cubic yards disposed) provided to franchised commercial haulers that provided "front-loader" service approved as part of the 2004-2005 Adopted Operating Budget and additional receipts as a result of the completion of an audit of Browning-Ferris Industries fee payments covering a period from July 2000 to June 2003.

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$73.1 million were 4.4% above (\$3.1 million) the 2004-2005 modified budget level of \$70.0 million and 6.8% above (\$4.6 million) the 2003-2004 actual level. The performance compared to the 2003-2004 actual levels was driven by growth in all four utilities.

Electricity Utility Tax receipts of \$33.6 million were 6.6% above (\$2.1 million) the modified budget estimate of \$31.5 million and 4.2% above (up \$1.3 million) the 2003-2004 level. The increase in the Electricity Utility Tax is the result of a slight increase in rates in 2004-2005.

Gas Utility Tax collections of \$9.2 million were 7.1% (\$605,000) above the modified budget level of \$8.5 million and 16.5% above (\$1.3 million) the prior year collection level of \$7.9 million. This growth over the prior year reflects the continued increase in natural gas prices through 2004-2005 with relatively flat consumption. Unlike the electric utility category that regulates the prices paid by consumers, increases in the price of gas are passed on to customers throughout the year.

Water Utility Tax receipts of \$6.9 million were 3.9% above (\$261,000) the modified budget level of \$6.6 million and 4.0% above (\$263,000) the prior year collection level of \$6.6 million. This performance was primarily driven by increases in water rates coupled with a slight overall decrease in consumption.

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Utility Tax (Cont'd.)

Telephone Utility Tax collections of \$23.5 million were 3.9% above (\$874,000) the modified budget level of \$22.6 million and 7.9% above (\$1.7 million) the prior year collection level of \$21.7 million. This increase reflects higher than anticipated consumption growth, primarily in cellular phone usage.

Licenses and Permits

Revenues in this category include the Cardroom Tax, Business Tax, a Disposal Facility Tax, Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$73.2 million were 0.2% below (down \$166,000) the modified budget level of \$73.3 million and 5.1% above (\$3.6 million) the 2003-2004 collection level of \$69.6 million.

Cardroom Business Tax receipts of \$9.8 million ended the year 9.1% above (\$818,000) the modified budget estimate of \$9.0 million and 14.2% above (\$1.2 million) the prior year actual level of \$8.6 million. This performance primarily reflects increased activity. Business Tax revenues of \$12.2 million ended the year 15.5% below (down \$2.2 million) the modified budget estimate of \$14.4 million and 4.7% below (\$600,000) the 2003-2004 collection level of \$12.8 million. The decline in Business Tax revenues was largely due to a delay in implementing a plan to conduct an amnesty program during the 2004-2005 fiscal year. The Program to grant amnesty for the payment of delinquent penalties and interest otherwise due, serving as a mechanism to identify and collect on delinquent business taxes, is now budgeted to be implemented in 2005-2006.

Disposal Facility Tax collections of \$14.7 million ended the year 2.6% below (down \$386,000) the modified budget estimate of \$15.1 million (revised downward from \$16.1 million to \$15.1 million as part of the Mid-Year Budget Review). Disposal Facility Tax collections, however, ended the year 0.2% above (\$31,000) prior year actual collections of \$14.8 million. The variance between actual year-end collections and the modified budget estimate are primarily the result of a continuing dispute over the change in the definition of cover material that was approved in the 2002-2003 Adopted Budget. BFI and Waste Management have taken issue with this change, and pending a resolution of this dispute, by agreement with the City Attorney's Office, BFI and Waste Management have entered into a tolling agreement where the disputed amounts owed are withheld in an escrow account. The City Attorney's Office is still working to reach an agreement on this issue. Although this action was taken into account in the development of the 2004-2005 Adopted Budget, it was expected at that time that we would receive a portion of the original \$1.8 million disputed amount.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

While this estimate was adjusted downwards during the Mid-Year Budget Review by \$1.0 million, none of the disputed revenues were received in 2004-2005. After taking the affect of the disputed amount into consideration, collections ended the year within expectations.

Fire Fee receipts of \$6.0 million at year-end were 3.2% below (\$193,000) the 2004-2005 modified budget level of \$6.2 million, but 1.6% above (\$102,000) last year's level of \$5.9 million. A one-time charge for bad debt allowance (\$466,000), however, is included in this total figure. After normalizing for this charge, Fire Permit receipts actually ended the year with \$6.4 million in collections or 4.3% above the budgeted estimate. The 2004-2005 adopted revenue estimate assumed a continuation of last year's activity levels, with higher fee levels approved by City Council, including fee increases to the Permitted/Special Occupancy and Hazardous Materials areas of 5.0% and the establishment of a new record retention fee for development-related projects. Fire Code Plan Check (Development) revenues and Annual Renewable Permits (Non-Development) ended the year slightly above budgeted estimates due to higher than expected revenue from Non-renewable and Other Miscellaneous (Development) categories. An increase to the Fire Fee Reserve in the amount of \$785,000 is included in this document to reflect the higher than anticipated revenues, vacancy savings, and reserve interest earnings throughout the year.

Building Permit receipts of \$24.5 million ended the year 4.1% above (\$972,000) the modified budget estimate of \$23.5 million and 9.8% above (\$2.2 million) the prior year level of \$22.3 million. The 2004-2005 estimate was built assuming a continuation of the activity levels of 2003-2004, with approved fee increases of approximately 4.3%. In recognition of higher activity levels, building revenues were increased in June 2005 by \$1.5 million to reflect the anticipated year-end performance. For the year, residential activity rebounded to a total of 3,293 units, an approximate 20% increase from last year's ten-year low (2,709 units) and more than estimated (3,250 units). Commercial activity stabilized at \$210.0 million (construction valuation), which was slightly under estimates, but reversed three consecutive years of dramatic decline. Industrial activity ended the year slightly below estimated levels at \$139.3 million. As part of this document's proposed actions, a majority of the \$972,000 surplus is proposed as an increase to the existing reserve of \$8.1 million established for development-related activities. Another portion of the surplus is proposed to be used to offset additional staffing (the addition of a temporary Planner position recommended as part of this report) that is necessary to sustain the higher service levels requested by customers.

The revenue collection of \$5.7 million for various other health and public safety permits and licenses ended the year 13.6% above (\$684,000) the modified budget level of \$5.0 million, and 10.3% above the prior year collections (\$5.2 million).

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are proceeds from Parking, Municipal Code and Vehicle Codes Fines, and Cardroom and Business Tax Penalties. Collections of \$13.4 million in this category were 8.1% above (\$998,000) the modified budget estimate of \$12.4 million but 3.9% below (down \$539,000) prior year collections. Compared to the prior year, the negative variance was primarily due to higher one-time collections of delinquent business taxes and related fines and penalties in the prior year as a result of collection activity in the Finance Department utilizing the City's Business Information Management System (BIMS) that compares various lead source data files (e.g. State of California Franchise Tax Board, State Resale Permits, Fictitious Business Filings, etc.).

Revenue from Use of Money and Property

The largest source of revenue in the Use of Money and Property category is interest income earned in the General Fund as well as in several capital and special funds. Collections of \$7.9 million ended the year 15.6% above (\$1.1 million) the modified budget level of \$6.9 million but 4.4% below (down \$366,000) the prior year collection level of \$8.3 million. The slight drop from the prior year level reflects the anticipated lower average cash balances during the year offset somewhat by higher average interest rates for the General Fund and several special funds. Also included in this category was income from rental of communication facilities that came in approximately \$350,000 higher than budgeted.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The seven primary sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service and eligible capital expenditures (which enables the City to fund the San José BEST Program); Enterprise Fund In-Lieu Charges; payments from the Central Fire District for fire services provided to County residents by the San José Fire Department; and payment for the County Paramedic Program.

Revenue collections of \$45.1 million in the Local Agencies category ended the year slightly (1.4%) below (down \$622,000) the modified budget but 7.6% above (\$3.2 million) the 2003-2004 collection level. The higher collections over the prior year were primarily driven by receipt of grant money from Santa Clara County for the Automated Fingerprint Identification System (\$2.7 million) and higher levels of other agencies collections for animal services, offset by variances associated with a number of grants.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Revenue from the State of California

Revenue collections of \$13.5 million in this category ended the year 2.6% above (\$338,000) the modified budget estimate of \$13.1 million but 70.9% below (down \$32.8 million) the prior year actual level.

As noted above under the Property Tax category, the decline from the prior year primarily reflects the complicated result of State budget balancing actions, where VLF was reduced by a State determined amount (\$49.4 million in 2004-2005), and, in turn, reimbursed to the City as Property Tax, scheduled to be received in January and May each year. As part of State budget actions, the VLF rate has now been permanently reduced from 2% to 0.65% (the current rate in use) and all future receipts to the City replacing this lost revenue are to be in the form of increased Property Tax receipts. Thus, the backfill amount due the City will permanently become property tax revenue that will grow based on assessed valuations. As this action is supposed to be permanent, a decrease of \$49.4 million to this category was approved by City Council during the Mid-Year Budget Review, along with a recommendation that the compensating State revenue be treated as Property Tax in future budgets.

Also included in this report is a recommendation to rebudget the revenue and corresponding expenditure budget for various grants to 2005-2006 (net \$1.2 million), as described in section III.

Revenue from the Federal Government

The proceeds in this category are entirely composed of various grant programs. In 2004-2005, Revenue from the Federal Government of \$2.6 million was 77.2% below (down \$8.8 million) the modified budget estimate of \$11.4 million and 10.8% below (down \$315,000) the 2003-2004 collection level. The variance from budget was primarily related to two General Fund Capital grants, the COPS Interoperable Communications grant (\$4.2 million) and the Urban Area Security Initiative grant (\$2.7 million), that are now expected to be received in 2005-2006 and were rebudgeted as part of the 2005-2006 Adopted Budget, as well as fluctuations in other grants calculated on a reimbursement basis. Included in this report is a recommendation to increase the revenue and corresponding expenditure budget for various grants that were previously rebudgeted to 2005-2006 (net \$412,000), as described in section III.

Departmental Charges

This category includes the fees and charges levied to recover costs of services provided by various City departments. Collections of \$28.1 million for Departmental Charges were 0.2% below (down \$43,000) the modified budget estimate but 2.7% above (\$744,000) the 2003-2004 collection level.

A brief description of the performance in each of the departmental fee categories is provided below.

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Departmental Charges (Cont'd.)

- ***Miscellaneous Departmental Fees and Charges*** – Collections of \$3.2 million ended the year 12.3% above (\$351,000) the modified budget estimate and 18.4% above (\$498,000) the prior year actual level of \$2.7 million. The variance from the prior year level was primarily driven by higher Solid Waste Enforcement Fee collections and higher settlements and reimbursements.
- ***Police Departmental Fees*** – Collections of \$1.4 million at year-end were 6.5% (\$97,000) lower than the modified budget estimate of \$1.5 million and 0.4% (\$5,000) lower than the \$1.4 million collected in 2003-2004. The slightly lower than budgeted revenue for 2004-2005 was due to lower revenues received for Vehicle Impound Release, Driving Under the Influence and for State reimbursements for Police Officer Standards and Training (POST), partially offset by higher collections for miscellaneous Police fees, including Tow Service Dispatch.
- ***Public Works Departmental Fees*** – Collections for Public Works Departmental charges of \$8.2 million ended the year 6.4% above (\$494,000) the modified budget estimate of \$7.7 million and 3.8% above (\$297,000) the \$7.9 million collected in 2003-2004. Revenues in the Erosion and Sediment Control, Non-Residential Engineering, Private Streets Engineering, Traffic Reports, Planned Development Permits, and Grading Permits fee categories performed at higher than estimated levels. This performance was partially offset by lower than anticipated collections in the Residential Engineering, Utility Excavations, and Electrical Design categories. Although revenue collections were above anticipated levels, expenditures exceeded budgeted levels by \$636,000. The over expenditures are partially offset by the positive revenue variance, while the remaining shortfall is recommended to be supplemented by a corresponding decrease to the Public Works Fee Reserve.
- ***Transportation Departmental Fees*** – Collections of \$997,000 ended the year 31.8% above (\$240,000) the modified budget estimate of \$757,000 but 4.4% below (\$46,000) the \$1.0 million collected in 2003-2004. The strong performance in this category was primarily driven by higher than anticipated receipts for a number of development-related fees including Residential Signal Design, Non-Residential Signal Review, and Street Tree Planting. Higher than anticipated collections for Miscellaneous Traffic Repairs, which are charges for repairs caused by accidents or other events, also contributed to the strong performance in Transportation Departmental Fees.
- ***Library Departmental Fees*** – Collections of \$1.2 million ended the year 29.3% above (\$278,000) the modified budget estimate of \$950,000 and 3.3% above (\$39,000) the \$1.2 million collected in 2003-2004. The positive variance in fees from the budgeted amount reflects higher than anticipated Library fines.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

- ***Planning Departmental Fees*** – Collections of \$5.6 million ended the year below (2.5%) the budget estimate of \$5.8 million and 3.2% above (\$173,000) the prior year level. In line with the other development-related fee areas, the 2004-2005 estimate was built assuming a continuation of the activity levels of 2003-2004, with new fees and fee increases of 7% approved by City Council. Specific fee categories that performed better than expected were Preliminary Review, Annexations, Public Noticing, Residential: Tentative Maps, Planned Development Prezonings/Rezonings, Conventional Prezonings/Rezonings, Site Development Permits, and Conditional Use Permits; and Non-Residential: Conditional Use Permits and Tentative Maps. This performance was offset by lower than anticipated revenue collections in Residential: General Plan Amendments, Environmental Clearances, Planned Development Permits; and Non-Residential: General Plan Amendments, Planned Development Prezonings/ Rezonings, Conventional Prezonings/Rezonings, Environmental Clearances, Site Development Permits, and Conditional Use Permits. Based on year-end results, included in this document are downward adjustments of \$163,220 to the existing Planning Fee Reserve of \$811,312 and \$24,440 to the existing General Plan Update Earmarked Reserve of \$200,000.
- ***Parks, Recreation, and Neighborhood Services Departmental Fees*** – Collections of \$7.4 million ended the year below (down \$1.2 million) the modified budget estimate of \$8.6 million and 2.8% below (\$212,000) the \$7.6 million collected in 2003-2004. The negative variance from modified budget was primarily driven by lower receipts from Happy Hollow Park and Zoo as well as other regional parks and facilities fees, Gym Fitness Center fees, and lower than expected revenues for veterinary services.

Other Revenue

Other Revenue receipts of \$18.4 million were 39.3% below (\$11.9 million) the modified budget level of \$30.3 million, but 16.5% above (\$2.6 million) the 2003-2004 collection level. The variance to budget was primarily related to reimbursement revenue for the Coyote Valley Specific Plan and the Evergreen Strategy (down \$5.3 million and \$7.4 million, respectively) that was only received to the extent that expenditures were incurred, with the remaining revenue and expenditures rebudgeted to 2005-2006. These decreases were offset by unbudgeted receipts from the pay-off of three Senior Staff Home Loans (\$750,000). The Home Loan repayments are recommended to be rebudgeted to 2005-2006 as described in section III.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Other Revenue (Cont'd.)

The variance from the prior year consists mostly of one-time or higher revenues booked in 2004-2005, which primarily reflects the higher reimbursement revenue received for the Coyote Valley Specific Plan and the Evergreen Strategy (\$2.2 million) for work performed in 2004-2005. The payment associated with the HP Pavilion, however, was \$939,000 below the amount received last year. This amount is still under dispute with the San Jose Arena Management.

Included in this report is a recommendation to increase the revenue and corresponding expenditure budget for various grants to rebudget these funds to 2005-2006 (net \$2.5 million), as described in section III.

Overhead Reimbursements

Payments from other funds for overhead costs of \$29.4 million ended the year only slightly (1.5%) above (\$432,000) the modified budget estimate of \$29.0 million. This small variance represents the net result of a series of over- and under-budgeted performances from over 45 special and capital funds that reimburse the General Fund. These differences occurred where fund activities were over or under the level assumed in the modified budget estimates. The slight positive variance was primarily driven by higher than anticipated collections from various capital funds (e.g., Construction and Conveyance Tax Fund, Public Works Support Fund, Redevelopment Capital Fund, and Parks and Recreation Bond Projects Fund) based on actual activity levels.

Transfers

Revenue from the Transfers category of \$42.8 million ended the year 0.3% below (\$142,000) the modified budget level of \$42.9 million. The negative variance primarily reflects the lack of the anticipated transfer from the Developers Fee Fund that did not occur (\$2.5 million) and a lower reimbursement from the Emergency Communications System Support Fee Fund (\$329,000). These negative variances were almost entirely offset by a number of higher than anticipated transfers, including a higher transfer from the Construction and Conveyance Tax Fund based on actual revenue collections (\$1.7 million), and the transfer of interest revenue from the Redevelopment Agency Capital Projects Fund (\$440,000).

This category included the transfer from the Emergency Communications System Support Fee Fund (\$9.1 million) to reimburse the General Fund for emergency communication system expenditures. This new fee was added in 2004-2005 as a budget-balancing measure and was implemented in January 2005. This transfer, which covered a six-month period, was slightly under the \$9.4 million modified budget level. This source will be closely monitored and the performance will be reported through the Monthly Financial Report process.

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GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Reimbursements for Services

Collections of \$17.4 million in the Reimbursements for Services category were 0.4% below (down \$64,000) the modified budget level. The negative variance was due to lower than anticipated reimbursements for Maintenance Assessment Districts and Deferred Compensation costs.

Summary

Total revenue received by the General Fund for 2004-2005 (\$682.0 million) was lower than the modified budget level by \$6.0 million or less than 0.9%. After adjusting for grant and reimbursement related revenues not received in 2004-2005, but carried over to 2005-2006, however, it can be seen that revenues actually ended the year within 2.2% or \$14.8 million above the budgeted estimate used for fund balance purposes. This balance is still a very notable result given the diverse and unanticipated factors that affected our revenue streams last year, and the overall size of the General Fund. This outcome represents the net impact of a number of positive and negative variances already described in the previous sections. The Administration will continue to monitor collections actively for 2005-2006 through the Monthly Financial Report process, and return with recommendations for any revisions that seem appropriate during the Mid-Year Budget Review.